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Operating Loans for

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U. S. DEPARTMENT OF AGRICULTURE
Farmers Home Administration

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Operating Loans

Operating loans are made by the Farmers Home Administration primarily to help eligible operators of family-type farms get ahead through better farming.

These loans are based on farm and home plans developed with each individual family to provide for the best use of land, labor, livestock, and equipment. To help the families carry out their plans and increase their earnings, the agency's local county supervisor makes farm visits, as necessary, to advise and assist them in making planned adjustments in their farming operations and in adopting improved farm and home practices. When a family is making substantial adjustments in their farming operations, the supervisor and the family at the end of each year review the year's operations and, profiting from the successes and failures made during the year, prepare the next year's plan.

This program serves farmers who are unable to obtain credit needed to carry on successful farming operations from local banks, production credit associations, or other sources.

Applications from eligible veterans are given preference in the making of farm operating loans. Both veterans and non-veterans must meet the same qualifications and requirements.

The following are answers to questions often asked about farm operating loans:

Am I eligible for a loan?

You are eligible for an operating loan:

- (a) If you are a citizen of the United States;
- (b) If you have had satisfactory farm experience or training;
- (c) If you cannot obtain needed credit from any other established source in your community at reasonable rates and terms;

- (d) If you will earn the major part of your income from farming and will spend most of your time in carrying on your farming operations;
- (e) If you own or can rent on reasonable terms a family-type farm suitable for the farming operations you plan to carry on.

Who decides whether I am eligible?

The county committee of the Farmers Home Administration must certify in writing that you are eligible for a loan. This committee consists of three local persons, at least two of whom are farmers, who know farming conditions in their county and know what it takes for a farmer to succeed. The committee may visit your farm and ask you and your wife to meet with them to discuss your farm background, experience, and needs.

What is a family-type farm?

A family-type farm is a farm that will give you a reasonable standard of living, enable you to pay your operating expenses and your debts and have a reasonable reserve for emergencies. It is a farm that can be and will be managed by you, and will be worked mainly by you and your family except perhaps at planting and harvesting time.

If I am eligible, what is the next step?

After the county committee finds that you are eligible, you will work out a farm and home plan to make the best use of land, labor, livestock and equipment. The supervisor will help you complete this plan. Before a loan is made, it must be clear that you will have enough income from the planned operations to meet your farm operating and family living expenses and to repay the loan and other debts. You will be expected to follow the farm and home plan developed with the help of the supervisor.

What is a farm and home plan?

It is a plan developed by you and the county supervisor for the purpose of determining the soundness of the proposed farming operations and to provide a guide that you and your family will follow in operating the farm successfully. It will show the crops you intend to grow, the livestock you expect to have for sale and for home use, the practices you will follow in caring for your land, crops and livestock, how much you intend to spend for livestock and equipment and for running the farm and home, the income you expect and how it will be used.

For what purposes may I use loan funds?

The main purpose of the loan is to enable you to make planned adjustments and improvements in your farm and home business and increase your income. Loans may be made to pay for livestock, farm and home equipment, feed, seed, lime and fertilizer, and when necessary to pay other farm operating and family living expenses, including medical care. Loans may also be made to refinance debts on livestock, farm equipment and harvested feed where such action is necessary to assure a sound farming operation.

How much can I borrow?

The amount of your loan will depend upon your needs as determined by your plan of operation and your ability to repay the loan. The size of loans varies considerably depending upon the system of farming to be followed and the actual needs of the applicants. The average operating loan is for about \$3,500, but loans may be made for larger amounts where necessary. An applicant's total principal indebtedness for operating loans, however, may not exceed \$20,000.

What interest will I pay?

The interest is 5 percent per year on the unpaid balance.

When will I be expected to repay the loan?

Funds advanced for current operating expenses such as seed, fertilizer, spray material, tractor fuel, feed, and farm supplies will be repaid when income is received from the sale of the crops, livestock, or livestock products that are produced with the help of the loan. In other words, loan funds advanced to meet operating expenses during a crop year generally will be repaid when that year's income is received.

On the other hand, funds loaned to buy such things as productive livestock and farm equipment, and to carry out basic soil building and conservation practices, will be repaid as rapidly as possible. This repayment schedule is based on the income to be received each year after reasonable expenses are met. Loans may be made repayable over periods up to 7 years.

You will be encouraged to make large payments in years of good income to build up a reserve that may keep your loan in good standing during years of low income. Regardless of the repayment schedule established, you will be expected to re-finance the balance owed on your loan when you have progressed to the extent that you are able to obtain credit for these purposes from local sources at prevailing rates and terms in your area.

What security must I give?

Loans are made with the expectation that they will be repaid out of income to be received from future farming operations, rather than on the basis of how much security you can give. For that reason, a definite agreement must be made as to how future income will be

used. To give effect to these agreements, security will consist of (a) a first mortgage on all crops to be produced, as well as on the livestock and equipment purchased or refinanced with loan funds; (b) a mortgage on other chattel property that you own; and (c) depending on the circumstances in your case, other written agreements will be made—for example, if you are a dairy farmer, an assignment may be taken on a part of your dairy income.

Must I have a lease if I am not an owner?

Yes. The Farmers Home Administration will not make you a loan unless you have the use of a farm of sufficient size and productivity, for a long enough period, to permit you to carry out a successful farming program. It is highly desirable for you and the supervisor to discuss your proposed operations with the landlord in considerable detail so that a sound plan for operating the farm may be developed and agreed to by all parties and that a written lease may be obtained which is fair to both you and the landlord.

What records must I keep?

You will need records of income and expenses to show the results of the year's operations and to determine the changes needed in the future to improve your farming operations further. For this reason, you will be expected to keep a record of income and expenses. A record book for this purpose will be furnished by the supervisor, and, if necessary, he will show you how to keep and use your records.

Will it cost me anything to apply for a loan?

No. If a loan is made, however, you would be expected to pay the small fees charged by local officials for making a lien search or chattel mortgage abstract and for filing or recording the chattel mortgage.

Can operating loans be made to operators of farms that are smaller than family-type farms who work off the farm part time?

If you are an established farmer carrying on a substantial farming operation and are spending the major portion of your time farming, you may be eligible for an operating loan even though you work off the farm part of the time.

You must have dependable income from other sources, and that income plus the farm income, must be sufficient to provide you and your family with a reasonable standard of living, enable you to pay your debts, and have a reasonable reserve for emergencies.

Operating loans may be made to eligible part-time farmers for the same purposes and on the same terms as loans to full-time family-type farmers described above.

What other loans are made by the Farmers Home Administration?

Loans may also be made for land purchase and development, farm housing, soil and water conservation and emergency credit needs.

Where should I apply for a loan?

At the Farmers Home Administration office serving your county. There you will be given an application blank, and the supervisor will be glad to answer any questions you may have.

If you are not able to locate the office, the county agricultural agent can direct you, or you can write to the Farmers Home Administration, U. S. Department of Agriculture, Washington 25, D. C.